Benefits of Listing on The Jamaica Stock Exchange Junior Market

Scotia DBG Investments

What is a Junior Market?

- The Junior Market, or Junior Board is a Stock Market attached to an existing Exchange or Main Board mainly for the development of venture capital financing.

- Designed for the benefit of raising Capital for Small and Medium Enterprises up to J$500mn and more than J$50Mn.
  - To this end, incentives for listing on this exchange includes:
    - Relaxed listing requirements- online prospectus etc.;
    - Tax-breaks-0%-years 1-5; 25% of regular tax rate-years 6-10.
    - Reduced Trading fees, ie: JSE Cess, and JCSD trading fees-50% less than Main Board
    - Exemptions on Transfer tax on shares, as well as Stamp duty on such transfers.

Why Participate on a Junior Market?

- **Capital raised on the Exchange provides for equity infusions, as opposed to Debt capital which can range from 19%-26%, and possibly higher in increasing interest rate regimes like now.**

- **By raising capital through an Initial Public Offering (IPO), SME's assist greatly in growing the local economy by creating established and transparent businesses, jobs, growth, and ultimately economic confidence.**

- **The tax breaks obviously stand out as a major incentive for going public on the Junior Market, as the ten year exemptions on income tax, allows for a continued and faster pace of growth in the listing company as more Net Income can get reinvested into the company.**

Who is Eligible for the Junior Market?

- Any existing business or start-up incorporated or registered, and operating, or will be operating, as a business in Jamaica, or any other Caricom country is eligible for listing on the Junior board.
- Cannot be associated with a JSE listed, or other listed company.
- Must have a certain number of shareholders holding at least 20% of the equity share capital- Minimum of 25 shareholders within the first 5 years, and at least 50 in the next five.
- Must have a mentor to act as a compliance advisor to the company's Board.
- Must meet the criteria for the GoJ tax concessions (yet to be determined)

Steps to Listing on the Junior Market

- A public offer of equity share capital at a fixed price, either through an offer for sale or through an IPO subscription.
- Prospectus forwarded to the JSE and FSC at least 21 days before publication, for their review and approval.
- Prospectus must be published at least 14 days before offer opens for sale or subscription through JSE website upload- Print media publishing not required as on main board.
- Prospectus can also be disseminated through lead brokers and selling agents.

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Steps to Listing on the Junior Market-cont.

- Other standard form documents provided by the JSE in "off the shelf" format, include the Admission Agreement, Declaration for Admission, Mentor Agreement, and Approval Minutes from the Board of Directors and EGM of original equity shareholders.

- Proof of Tax Concession eligibility (to be determined)

- Appointment of a Mentor to assist the Board, but not as a Board appointment.

- Provision for financial reporting quarterly and annually in International Financial Reporting Standards (IFRS)

Important Points of note

- It is highly recommended that along with a prospectus outlining the Offer for Sale or Subscription, a detailed Business Plan outlining the business and growth strategies should be developed.

- As this Junior Market is designed for Small and Medium Enterprise Entities (SME's), the restriction to capital raising is J$50-500Mn in Subscribed Share capital.

- Upon exceeding the J$500mn subscribed share capital limit within the initial 10 year period, an entity will be required to "graduate" to the Main Board, and the income tax breaks would cease and be required to be repaid.

- A listed entity, upon completing the 10 year period will then be required to either (a) delist and pay all taxes exempted in the past 10 year period; or (b) Graduate to the main board, by increasing their subscribed share capital above the J$500mn, and then remain on the "Big Board" for the next 5 years minimum to keep the tax breaks afforded them in the first 10 years on the junior board. (Details are still being worked on in this regard).

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Important Points of note- cont.

- If the listed company is acquired by a private entity following any full year on the junior market where the tax benefits were received, then the company will be required to delist, and the tax benefits earned to date must be remitted.

- It has been confirmed that the payment of Dividends from the listed company to it's shareholders is now tax free throughout the life of the company.

- The listing by a company of any securities on any Exchange, is in the absolute discretion of the Board of the Exchange.

The Role of the Mentor

- The Mentor provides the company's Board with compliance, not business advice.
  - To this end the Mentor will be required to:
    - Advise on the establishment of adequate procedures, systems and controls good corporate governance.
    - Provide good fiscal discipline and financial reporting
    - Guide on timely disclosure of price sensitive information, ie. quarterly and annual reports.
  - The Mentor will also assist in drafting the prospectus for listing.

  - It is important that an appropriate mentor is chosen that is "fit and proper", since once a mentor fails to qualify as "fit & proper", the company may qualify to be delisted, as well if the mentor resigns and no replacement is found within 30 days.

Investing In You

How does Scotia DBG Fit into the picture?

- As a licensed Stockbroker on the Jamaica Stock Exchange, SDBG will act as lead broker, offering the shares within an IPO to our client base, which is much broader with the Scotia Network available to us as well.

- As lead broker, SDBG could coordinate the marketing and provision of prospectuses to other brokerages along with any business plans collaboratively developed to pitch to a wider investor base.

- SDBG can provide the mentor services as required by the JSE for the development of the "off-the-shelf" prospectus and application documents, as well as perform the compliance advisory functions within the Board of the listing company.

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Investing In You

How does Scotia DBG Fit into the picture?

- **With the support of Scotiabank Jamaica, and specifically the Small and Medium Enterprise Business Development Unit, additional services can be offered to include, attractive debt financing for additional functions such as overdrafts, lines of credit, business credit cards, as well as market network exposure that puts related companies together for greater synergies.**

- **In some cases underwriting facilities could even be examined.**